



TIGHTENING THE DEFINITION OF INCOME USED TO DETERMINE ELIGIBILITY FOR EXCHANGE SUBSIDIES, MEDICAID, AND CHIP (H.R. 2576)

October 2011

Background:

- Under the new health care law, starting in 2014, a uniform definition of modified adjusted gross income (“MAGI”) will apply for purposes of determining eligibility for the newly created premium assistance tax credits and cost-sharing subsidies (collectively known as “Exchange subsidies”), Medicaid, and CHIP.
- Under this definition, MAGI equals adjusted gross income (“AGI”) plus any tax-exempt interest and foreign earned income otherwise excluded from AGI. Because a portion of Social Security benefits is currently excluded from gross income (and therefore from AGI) for income tax purposes, the current MAGI definition used to determine eligibility for those other health benefits does not reflect the tax-free portion of those Social Security benefits.
- Because the current-law definition does not include the total amount of Social Security benefits received, millions of households with resources higher than the eligibility threshold envisioned for Exchange subsidies, Medicaid, and CHIP could nevertheless qualify for those benefits (or for larger benefits than were intended). In fact, according to the Congressional Research Service (CRS), a couple with a total income of \$58,840 (with a MAGI of \$19,760) could actually have a lower MAGI than would a couple with \$22,065 in total income (with a MAGI of \$20,065) under the current, flawed definition that excludes the non-taxable portion of Social Security benefits.
- According to a June 21, 2011 [report](#) by the Associated Press, Administration officials believe that “[a] married couple could have an annual income of about \$64,000 and still get Medicaid” under the current definition. According to that same report: “Medicare chief actuary Richard Foster says the situation keeps him up at night. ‘I don’t generally comment on the pros or cons of policy, but that just doesn’t make sense,’ Foster said...”

Proposal:

- Rep. Diane Black (R-TN) has introduced legislation (H.R. 2576) that would tighten the definition of MAGI used to determine eligibility for Exchange subsidies, Medicaid, and CHIP by including the entire amount of Social Security benefits received, rather than just the portion that is taxable for income tax purposes, consistent with the treatment of Social Security benefits for determining eligibility for various other Federal benefits. The tax treatment of the Social Security benefits themselves would be unaffected. CBO and JCT have estimated that this stricter definition would, on net, reduce the deficit by \$13.0 billion over ten years.

- This proposal would reduce the cost of the new health law by significantly decreasing the number of households that would otherwise be made eligible for government-subsidized health insurance under the new health care law.
- President Obama himself concedes that the current, flawed definition of MAGI needs to be corrected, and his recent debt reduction plan explicitly proposes that the entire amount of Social Security benefits be included in that definition.
- While legislation (H.R. 2) that would repeal the new health law in its entirety remains pending in the Senate, H.R. 2576 is a common-sense, bipartisan proposal that Congress and the President can enact right away.